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Counsel

FILED

NOV 01 2004

PUBLIC SERVICE
COMMISSION

CINERGY

RECEIVED

VIA OVERNIGHT MAIL

October 29, 2004

Case 2004-00435

NOV 01 2004

Ms. Elizabeth O'Donnell
Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

PUBLIC SERVICE
COMMISSION

Re: In the Matter of the Application of ULH&P for an Order Authorizing the Issuance and Sale of up to \$75,000,000 Principal Amount of First Mortgage Bonds or Unsecured Debt and Use of Interest Rate Management Techniques

Dear Ms. O'Donnell:

Enclosed please find an original and ten (10) copies of the above-referenced Application, for filing with the Commission. Please return to me two (2) file-stamped copies in the enclosed overnight mail envelope. Should you have any questions, please do not hesitate to contact me at (513) 287-3075.

Sincerely,



Michael J. Pahutski

MJP/mak

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
NOV 0 1 2004
PUBLIC SERVICE
COMMISSION

In the Matter of the Application of The Union)
Light, Heat and Power Company for an Order)
Authorizing the Issuance and Sale of up to) Case No. 2004- 00435
\$75,000,000 Principal Amount of First Mortgage)
Bonds or Unsecured Debt and Use of Interest)
Rate Management Techniques)

APPLICATION

The Union Light, Heat and Power Company (ULH&P) respectfully petitions the Kentucky Public Service Commission (Commission), pursuant to KRS 278.300 and 807 KAR 5:001 Section 11, that the Commission authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto, as more fully described herein. In support of this Application, ULH&P states as follows:

1. **Address:** ULH&P is a Kentucky corporation with its principal office and principal place of business at 1697A Monmouth Street, Newport Shopping Center, Newport, Kentucky 41071. The address of ULH&P's principal executive office is 139 East Fourth Street, Cincinnati, Ohio 45202.
2. **Articles of Incorporation:** Pursuant to 807 KAR 5:001, Section 8(3), ULH&P states that a certified copy of its Articles of Incorporation, as amended, is on file with the Commission in Case No. 6566.
3. **Statement of Business:** ULH&P is a utility as defined in KRS 278.010(3)(a) and (b), engaged in providing retail gas and electric services to its customers in Northern Kentucky in various municipalities and unincorporated areas of

Kenton, Campbell, Boone, Gallatin, Grant, and Pendleton Counties. ULH&P is thus subject to the jurisdiction of the Commission.

4. **807 KAR 5:001 Section 11 (1) (a).** As of September 30, 2004, the original cost of the property of ULH&P was \$595.3 million. Its principal properties consist of electric and gas distribution facilities.

5. **807 KAR 5:001 Section 11 (1) (b).** ULH&P proposes, with the necessary consent and authority of this Commission, to issue and sell, from time to time over a period ending December 31, 2006, up to \$75 million principal amount of first mortgage bonds (Bonds) or unsecured indebtedness (Debentures), or any combination thereof. The Bonds and the Debentures are referred to collectively as the "Securities".¹

Method of Issuance. ULH&P proposes to either (a) sell the Securities to one or more purchasers or underwriters through negotiated offerings or (b) sell the Securities through a competitive bidding process. In the event the Securities are sold through a negotiated offering, the terms of each offering of the Securities will be negotiated by ULH&P either with a group of underwriters headed by managing underwriters or with one or more underwriters, with a limited number of purchasers or with a single purchaser for a direct sale or for a sale through agents. If the Securities are sold through competitive bidding, the Securities will be sold to the bidder(s) whose proposal results in the lowest annual cost of money, with ULH&P having the right to reject any or all bids. Each of the bidders will be required to specify the coupon rate and the price, exclusive of accrued interest, to be paid for the Securities. After approval of the terms for each offering by ULH&P's Board of Directors or by persons authorized by ULH&P's Board

¹ This Application does not take into account the financing need of ULH&P with respect to the transfer and purchase of the generating assets approved by the Commission in Case No. 2003-00252.

of Directors, it is anticipated that an agreement and other transaction documents setting forth the terms of the Securities would be concluded.

Pricing Parameters. ULH&P has developed parameters under which the Securities are to be sold. The parameters, as set forth in Exhibit A, are designed to provide a reasonable allowance for potential changes in financial market conditions between the time of Commission authorization and the actual sale of the Securities. The inclusion of the parameters within the Order would allow ULH&P to sell the Securities on any day when it believes it is prudent to do so provided the terms are within the parameters.

Security and Other Agreements. The Bonds will be issued under and secured by a first mortgage, either the first mortgage dated as of February 1, 1949 between ULH&P and The Bank of New York, Trustee, as amended and supplemented to date and as proposed to be supplemented by one or more supplemental indentures (First Mortgage), or a new first mortgage agreement with a trustee to be determined. If the Debentures are issued, they will be issued under an indenture, either the Indenture dated as of July 1, 1995, between ULH&P and The Fifth Third Bank (or its successor), Trustee, as previously supplemented, and to be supplemented by one or more supplemental indentures, or a new indenture with a trustee to be determined.

Accounting. ULH&P proposes either to credit premiums or charge discounts, if any, and to charge the expenses to be incurred in connection with each issue to the proper deferred accounts and amortize such amounts over the respective lives of the Securities in equal annual amounts to current income.

Commission Authorization. ULH&P requests that the Commission issue its order no later than December 31, 2004 authorizing the issuance and sale of the Securities prior to the time ULH&P reaches agreement with respect to the terms of the Securities.

The authorization of the sale of the Securities consistent with the parameters herein in no way relieves ULH&P of its responsibility to negotiate and obtain the best terms available for the structure selected and, therefore, it is appropriate and reasonable for this Commission to authorize ULH&P to agree to such terms and prices consistent with said parameters.

Filings with the Securities and Exchange Commission. ULH&P has filed with the Securities and Exchange Commission (SEC) under the Securities Act of 1933 (Act) a Registration Statement on Form S-3 (Registration No. 33-40-245) in connection with the Bonds, to permit sales thereof from time to time pursuant to the provisions of Rule 415 (providing for "Shelf Registration" under the Act). Such Registration Statement authorized the issuance of \$40 million of Bonds, of which \$20 million of authority remains unused. Currently there are no Bonds outstanding under the First Mortgage. In addition, ULH&P filed with the SEC under the Act a Registration Statement on Form S-3 (Registration No. 333-119120), to permit issuance and sales of up to \$75,000,000 of Debentures. Such Registration Statement became effective September 28, 2004.

ULH&P may either amend such Registration Statements through one or more post-effective amendments for substantive changes from or additions to the previously filed prospectuses or may file new registration statements with the SEC relating to the Bonds or the Debentures.

Use of Interest Rate Management Techniques. ULH&P requests that this Commission grant it authority to utilize interest rate management techniques and enter into interest rate management agreements to manage its overall effective interest cost. Such authority will allow ULH&P sufficient alternatives and flexibility when striving to better manage its interest cost. Such authority was previously granted in Case No. 2001-00439.

Description of the Interest Rate Management Agreements. The interest rate management agreements will facilitate products commonly used in today's capital markets, consisting of interest rate swaps, caps, collars, floors, options, or hedging products such as forwards or futures, or similar products, the purpose of which being to manage interest costs. ULH&P expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and may be for underlying fixed or variable obligations of ULH&P.

Pricing Parameters. ULH&P proposes that the pricing parameters for interest rate management agreements be governed by the parameters corresponding to the underlying obligation in effect at its original issuance as specified in the Order authorizing such obligation by this Commission, if applicable.

Net fees and commissions in connection with any interest rate management agreement will be in addition to the above parameters and will not exceed 10% of the amount of the underlying obligation involved.

Accounting. ULH&P proposes to account for these transactions in accordance with generally accepted accounting principles.

Commission Authorization. Since market opportunities for these interest rate management alternatives are transitory, ULH&P must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, ULH&P seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time ULH&P reaches agreement with respect to the terms of such transactions.

The authorization of the interest rate management agreements consistent with the parameters herein in no way relieves ULH&P of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Commission to authorize ULH&P to agree to such terms and prices consistent with said parameters.

6. **807 KAR 5:001 Section 11 (1) (c).** The proceeds from the issuance of the Securities are expected to be used: (i) to repay a portion of ULH&P's short-term indebtedness; (ii) to redeem early long-term debt of ULH&P, if market conditions are favorable; (iii) to fund estimated future construction expenditures related to its gas delivery and electric transmission and distribution businesses of \$50.02 million in 2005 and \$50.6 million in 2006;² (iv) for such additional expenditures as contemplated by KRS 278.300; or (v) for other lawful corporate purposes. The financing authority requested herein is necessary and appropriate for and consistent with the proper performance by ULH&P of its services to the public, will not impair its ability to perform those services, and is reasonably necessary and appropriate for such purposes.

² These construction cost estimates do not include expenditures related to generating asset acquisition. Financing with respect to such expenditures will be addressed in a future filing.

7. **807 KAR 5:001 Section 11 (1) (d).** See Exhibit B concerning estimated construction expenditures, attached hereto, and made a part hereof.

8. **807 KAR 5:001 Section 11 (1) (e).** The short-term indebtedness expected to be discharged or partially discharged with the proceeds from the sale of the Securities consists primarily of short-term intercompany borrowings.

9. In Case No. 2001-00439 the Commission approved the issuance and sale of up to \$75,000,000 principal amount of First Mortgage Bonds or unsecured debt and the use of interest rate management techniques for a period ending December 31, 2004. As of the date of this filing, ULH&P has not yet utilized any of the existing authority.

10. **807 KAR 5:001 Section 6 and Section 11 (2) (a).** ULH&P is filing the following information in Exhibit C, which is incorporated herein and made a part of this application:

<u>Exhibit C</u> Page	<u>Description</u>	<u>807 KAR 5:001</u> <u>Section Reference</u>
	Financial Exhibit	6 and 11 (2) (a)
1	Amount and kinds of stock authorized	6 (1)
1	Amount and kinds of stock issued and outstanding	6 (2)
1	Terms of preference or preferred stock	6(3)
1	Brief description of each mortgage on property of ULH&P	6 (4)
2	Amount of bonds authorized and issued and related information	6 (5)
3	Notes outstanding and related information	6 (6)
3	Other indebtedness and related information	6 (7)

3	Dividend information	6 (8)
3-7	Detailed Income Statement and Balance Sheet	6 (9)

11. **807 KAR 5:001 Section 11 (2) (b).** The requested deeds of trust or mortgage documents indicated were filed in the following proceedings:

<u>Document</u>	<u>Style of Case</u>	<u>Case No.</u>	<u>Ex. No.</u>
First Mortgage February 1, 1949	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing Issue of Capital Stock and First Mortgage Bonds	1797	5
First Supplemental Indenture	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing a Ten-for-One Capital Stock Split, Changing Par Value from \$100 to \$15 per share Thereof and Transfer from Earned Surplus Account to Capital Stock Account the Sum Of \$1,247,904.26	2569	4
Second Supplemental Indenture May 1, 1954	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing Issue of Additional Capital Stock	2896	3
Third Supplemental Indenture July 1, 1959	In the Matter of the Application of The Union Light, Heat and Power Company for an Order Authorizing Issue of Additional Capital Stock	3976	3
Fourth Supplemental Indenture July 1, 1963	In the Matter of the Application of The Union Light, Heat and Power Company for Authority to Issue up to \$6,000,000 of Short-term Bank Loans with no Maturity To Exceed 25 months	5085	3
Fifth Supplemental Indenture January 1, 1967	In the Matter of the Application of The Union Light, Heat and Power Company for Authority to Issue up to \$6,000,000 of Short-term Bank Loans with no Maturity to Exceed 25 months	5085	4

Sixth Supplemental Indenture June 1, 1970	In the Matter of the Application of The Union Light, Heat and Power Company for Authority to Issue up to \$5,000,000 of Short-term Bank Loans with no Maturity to Exceed 25 months	5567	3
Seventh Supplemental Indenture October 1, 1973	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of \$10,000,000 First Mortgage Bonds, Series Due 2003	7270	E
Eighth Supplemental Indenture December 1, 1978	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of \$10,000,000 First Mortgage Bonds, Series Due 2008	8387	C
Ninth Supplemental Indenture December 15, 1981	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue and Sale of up to \$35,000,000 Principal Amount of First Mortgage Bonds	89-120	C
Tenth Supplemental Indenture July 1, 1989	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue and Sale of up to \$55,000,000 Principal Amount of First Mortgage Bonds	90-295	C
Eleventh Supplemental Indenture June 1, 1990	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue and Sale of up to \$55,000,000 Principal Amount of First Mortgage Bonds	90-295	D
Twelfth Supplemental Indenture November 15, 1990	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of Capital Stock	92-418	B
Thirteenth Supplemental Indenture August 1, 1992	In the Matter of the Application of The Union Light, Heat and Power Company for Order Authorizing Issue of Capital Stock	92-418	C

12. **807 KAR 5:001 Section 11 (2) (c).** The proposed construction is primarily comprised of installations, improvements and extensions in the ordinary course of business. It is therefore impractical to submit maps and plans pertaining thereto.

WHEREFORE, ULH&P asks that the Public Service Commission of the commonwealth of Kentucky issue an order authorizing ULH&P to issue and sell up to \$75,000,000 principal amount of its Bonds or Debentures, or any combination thereof, and to utilize Interest Rate Management Techniques, for the purposes herein stated and in a manner as herein set forth, and authorizing ULH&P to account for such Bonds, Debentures and Interest Rate Manage Agreements in the manner as herein set forth.

Dated at Cincinnati, Ohio, this 29th day of October, 2004.

THE UNION LIGHT, HEAT AND POWER COMPANY

By: *Wendy L. Atmiller*
Wendy L. Atmiller
Treasurer

Its Attorneys:

John J. Finnigan, Jr.
John J. Finnigan, Jr.
Michael J. Pahutski
The Union Light, Heat and Power Company
139 East Fourth Street
P.O. Box 960
Cincinnati, Ohio 45201

VERIFICATION

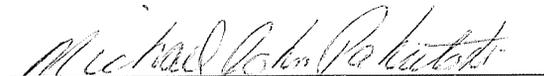
State of Ohio)
) SS:
County of Hamilton)

Wendy L. Aumiller, being first duly sworn, deposes and says that she is Treasurer of ULH&P in the proceeding entitled above; that she has read the foregoing application and knows the contents thereof; and that the same is true of her own knowledge, except as to matters which are therein stated on information or belief, and that as to those matters she believes them to be true.



Wendy L. Aumiller

Subscribed and sworn to before me, this 29th day of October, 2004.



Notary Public

MICHAEL JOHN PAHUTSKI
Attorney At Law
Notary Public, State of Ohio
My Commission Has No Expiration Date
Section 147.03 R.C.

The Union Light, Heat and Power Company

Summary

Principal Amount:	Up to \$75 million of first mortgage bonds (the “Bonds”) or unsecured indebtedness (the “Debentures”), or any combination thereof, in one or more series.
Maturity:	Up to 40 years for the Bonds and the Debentures.
Purpose:	To refund outstanding obligations, for construction expenditures, or for other general purposes.
Lead Underwriters:	To be named.
Underwriting Commissions or Agents’ Fees:	Not to exceed 3.50% of the principal amount.
Price to Public:	No higher than 102% nor less than 98% of the principal amount, plus accrued interest, if any.
Interest Rate:	Not to exceed those generally obtainable at the time of pricing or repricing of such Bonds and Debentures for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality.

Union Light, Heat and Power Company
Detail of Estimated Construction Expenditures¹
(807 KAR 5:001 Section 11(1)(d))

	2005	2006	2007
<u>Gas Department</u>			
Gas Production	\$276,485	\$282,427	\$288,799
Gas Special Projects	11,605,188	12,601,162	17,652,231
Gas Distribution	10,965,711	11,342,012	12,672,649
Gas Building & Grounds	298,988	305,414	345,336
Gas General	486,275	128	0
Gas Meters	2,324,783	3,367,458	3,443,429
Total Gas Department	<u>25,957,429</u>	<u>27,898,601</u>	<u>34,402,444</u>
<u>Electric Department</u>			
Substations - Transmission	2,493,521	816,237	0
Substations - Distribution	3,994,020	3,050,836	4,044,654
Transmission Lines	350,979	555,635	679,020
Distribution Transformers	1,242,868	1,258,332	1,292,697
Future Resources	0	0	0
Line Extensions	4,829,429	4,856,214	4,915,054
Street Lights	464,453	457,735	469,166
Distribution Improvements	5,731,494	6,313,257	5,581,256
Meters & Instrument Transform	2,102,794	3,386,092	3,410,603
Total Electric Department	<u>21,209,558</u>	<u>20,694,338</u>	<u>20,392,450</u>
<u>Common Plant</u>			
Buildings & Grounds	240,622	243,616	276,740
Telecommunications	1,286,313	1,200,025	341
Software Five Year	1,307,032	596,572	1,691,456
Transportation	20,330	23,587	19,251
Total Common Plant	<u>2,854,296</u>	<u>2,063,800</u>	<u>1,987,788</u>
<u>Total Construction Expense</u>	<u>\$50,021,283</u>	<u>\$50,656,739</u>	<u>\$56,782,682</u>

¹ Note that all construction expenditures are recorded in Account 107000

THE UNION LIGHT, HEAT AND POWER COMPANY

FINANCIAL EXHIBIT

September 30, 2004

807 KAR 5:001, SECTION 6

(1.) Amount and kinds of stock authorized.

1,000,000 shares of Capital Stock \$15 per share par value amounting to \$15,000,000 total par value.

(2.) Amount and kinds of stock issued and outstanding.

585,333 shares of Capital Stock \$15 per share par value amounting to \$8,779,995 total par value plus additional paid in capital thereon of \$23.541 million.

(3.) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets or otherwise.

There is no preferred stock authorized, issued or outstanding.

(4.) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provisions.

The Union Light, Heat and Power Company, as of February 1, 1949, executed its "First Mortgage" to The Bank of New York, Trustee, as security for the issuance of First Mortgage Bonds. As of October 1, 1951, it executed the "First Supplemental Indenture," as of May 1, 1954, the "Second Supplemental Indenture," as of July 1, 1959, the "Third Supplemental Indenture," as of July 1, 1963, the "Fourth Supplemental Indenture," as of June 1, 1970, the "Sixth Supplemental Indenture," as of October 1, 1973, the "Seventh Supplemental Indenture," as of December 1, 1978, the "Eighth Supplemental Indenture," as of December 15, 1981, the "Ninth Supplemental Indenture," as of July 1, 1989, the "Tenth Supplemental Indenture," as of June 1, 1990, the "Eleventh Supplemental Indenture," as of November 15, 1990, the "Twelfth Supplemental Indenture," and as of August 1, 1992, the "Thirteenth Supplemental Indenture," to said First Mortgage for the issuance of additional First Mortgage Bonds. The Company redeemed the First Mortgage Bonds issued under the First Supplemental Indenture on October 1, 1981, the Second Supplemental Indenture on May 1, 1984, the Third Supplemental Indenture on July 1, 1989, the Fourth Supplemental Indenture on July 1, 1993, the Sixth Supplemental Indenture on

September 30, 1977, the Seventh Supplemental Indenture on April 23 & 24, 1998, the Eighth Supplemental Indenture on May 1, 1996, the Ninth Supplemental Indenture on December 15, 1990, the Tenth Supplemental Indenture on September 1, 1995, the Eleventh Supplemental Indenture on June 1, 1995, the Twelfth Supplemental Indenture on February 15, 1996 and the Thirteenth Supplemental Indenture on August 1, 1999. The Company also executed a "Fifth Supplemental Indenture" as of January 1, 1967, changing certain provisions of the Mortgage. This mortgage, as amended, in the opinion of counsel for the Company, constitutes a direct first lien on all the property of the Company except rents, earnings, revenues, income or profit of the mortgaged property, cash, accounts receivable, supplies, etc. used in or held for the operation of the business. The aggregated principal amount of said Bonds at any time outstanding which may be secured by said First Mortgage presently is limited to \$200,000,000. As of September 30, 2004, the Company had issued and outstanding \$0 principal amount of First Mortgage Bonds secured under the terms of the Mortgage Indenture, as amended.

- (5.) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with amount of interest paid thereon during the last fiscal year.

The First Mortgage as amended, presently limits the principal amount of bonds which can be outstanding at any one time to \$200,000,000. The Company has outstanding First Mortgage Bonds, all of which are secured by the First Mortgage, as amended, of the Company to The Bank of New York, as Trustee, as follows:

<u>Indenture</u>	<u>Date of Issue</u>	<u>Principal Amount Auth. & Issued</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Paid Year 2004</u>
None Outstanding					

The Company has outstanding Debentures issued under the Indenture dated as of July 1, 1995, between the Company and The Fifth Third Bank, as Trustee, as follows:

<u>Indenture</u>	<u>Date of Issue</u>	<u>Principal Amount Auth. & Issued</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Paid Year 2004</u>
1 st Supplement	7/25/95	\$ 15,000,000	7.65%	7/15/2025	\$1,147,500
2 nd Supplement	4/30/98	\$ 20,000,000	6.50%	4/30/2008	\$1,300,000
4 th Supplement	9/17/99	\$ 20,000,000	7.875%	9/15/2009	\$1,575,000

(6.) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

<u>Payee</u>	<u>Date of Issue</u>	<u>Amount</u>	<u>Date of Maturity</u>	<u>Rate of Interest</u>	<u>Interest Paid Year 2004</u>
Cinergy Corp	9/30/04	\$26,140,351	10/01/04	1.86%	-
Cinergy Services	9/30/04	\$10,754,523	10/30/04	1.75%	-

(7.) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

To the extent that capital leases are considered debt, there are \$7.314 million in current and non-current capital lease obligations at September 30, 2004.

(8.) Rate and amount of dividends paid during the five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.

<u>Year Ending</u>	<u>Dividends Paid</u>		<u>No. of Shares</u>	<u>Par Value of Stock</u>
	<u>Per Share</u>	<u>Total (\$000)s</u>		
December 31, 1999	16.50	9,658	585,333	8,779,995
December 31, 2000	16.50	9,658	585,333	8,779,995
December 31, 2001	20.00	11,707	585,333	8,779,955
December 31, 2002	16.52	9,670	585,333	8,779,955
December 31, 2003	10.77	6,305	585,333	8,779,955

(9.) Detailed Income Statement and Balance Sheet.

See attached pages 4 through 7 of Financial Exhibit for detailed income statement for the twelve months ended September 30, 2004 and detailed balance sheet as of September 30, 2004.

THE UNION LIGHT, HEAT AND POWER COMPANY

NOTE TO FINANCIAL STATEMENTS

September 30, 2004

1. Utility plant is stated at original cost which does not represent its present day replacement or realizable value. The Kentucky statutes expressly authorize the Kentucky Public Service Commission to ascertain, for rate making purposes, the value of the property of any public utility and provide that, in making any such valuation, the Commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, and other elements of value recognized by the law of the land for rate making purposes.

THE UNION LIGHT, HEAT AND POWER COMPANY

Balance Sheet at September 30, 2004

Assets
(Dollars in Thousands)

Current Assets

Cash and cash equivalents	\$7,699
Notes receivable, current	5,301
Accounts receivable less accumulated provision for doubtful accounts of \$17 at September 30, 2004,	1,937
Accounts receivable from affiliated companies	169
Fuel and supplies	10,789
Prepayments and other	427
Total current assets	<u>26,322</u>

Property, Plant, and Equipment - at Cost

Utility Plant in Service	
Electric	283,525
Gas	251,354
Common	53,551
Total Utility Plant in Service	<u>588,430</u>
Construction work in progress	6,887
Total Utility Plant	<u>595,317</u>
Accumulated depreciation	<u>186,142</u>
Net Property, Plant, and Equipment	409,175

Other Assets

Regulatory assets	13,182
Other	716
Total other assets	<u>13,898</u>

Total Assets \$449,395

THE UNION LIGHT, HEAT AND POWER COMPANY

Balance Sheet at September 30, 2004

Liabilities
(Dollars in Thousands)

Current Liabilities

Accounts payable	\$3,145
Accounts payable to affiliated companies	18,701
Accrued taxes	5,804
Accrued interest	997
Notes payable to affiliated companies	36,895
Other	6,738
Total Current Liabilities	<u>72,280</u>

Non-Current Liabilities

Long-term debt	54,708
Deferred income taxes	59,546
Unamortized investment tax credits	2,687
Accrued pension and other postretirement benefit costs	14,829
Accrued cost of removal	29,029
Other	13,681
Total Non-Current Liabilities	<u>174,480</u>

Total Liabilities 246,760

Common Stock Equity

Common stock-\$15.00 par value; authorized shares- 1,000,000; outstanding shares-- 585,333	8,780
Paid-in capital	23,541
Retained earnings	170,803
Accumulated other comprehensive loss	(489)
Total Common Stock Equity	<u>202,635</u>

Total Liabilities and Shareholders' Equity \$449,395

THE UNION LIGHT, HEAT AND POWER COMPANY

Income Statement

For The Twelve Months Ended September 30, 2004
(Dollars in Thousands)

Operating Revenues	
Electric	\$228,555
Gas	120,308
Total Operating Revenues	<u>348,863</u>
Operating Expenses	
Electricity purchased from parent company for resale	158,535
Gas purchased	76,732
Operation and maintenance	55,084
Depreciation	19,677
Taxes other than income taxes	3,105
Total Operating Expenses	<u>313,133</u>
Operating Income	35,730
Miscellaneous Income – Net	1,330
Interest Expense	<u>5,367</u>
Income Before Taxes	31,693
Income Taxes	<u>10,862</u>
Net Income	<u><u>\$20,831</u></u>